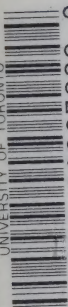


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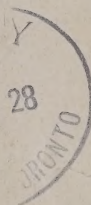
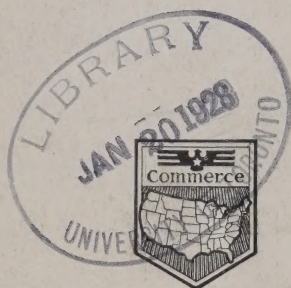
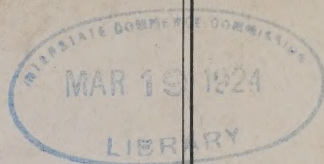
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OF

SECRETARY HOOVER

BEFORE

THE CHAMBER OF COMMERCE
OF THE UNITED STATES



ELEVENTH ANNUAL MEETING
NEW YORK, N. Y.

May 8, 1923

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HOLDING ON TO PROSPERITY

I wish on this occasion to review some of the more profound changes in our economic life during the past few years which I believe bear directly upon our present business situation. Many of the violent displacements of the war and post war period have now been liquidated or absorbed into the economic fabric and no longer trouble us. We have spent 40 billions upon war; we have mobilized and demobilized 7,000,000 men; we have passed the great post war crisis; we have recovered from an unemployment of 5,000,000 to a surplus of 500,000 jobs. We have become economically stronger than before the war and this strength has radiated stability to the entire world. There are still some great shifts in the stream of our economic life to which we must accommodate ourselves if we would hold to full employment and prosperity.

Immediate Situation

During the past few weeks there has been a distinct note of caution at our rapid industrial recovery. I have shared in this, but some have gone so far as to fear that we are entering a period of inflation or danger of collapse. Caution is the greatest safeguard to our continued prosperity, but caution need not be timidity nor exclusive of confidence and courage.

There are some parts of the building trades where there is strong pressure on prices and wages due to our large accumulated deficit in construction. There are parts of the agricultural industry that have not recovered to the extent of industry as a whole. I will refer to these situations later on. But outside of a very few commodities there has been a steady and rapid movement of all goods from raw material to the hands of the consumer and consumption is in pace with production. There have been no apparent large accumulations of goods. Moreover real inflation begins with large expectations and these expectations are not present.

There are very definite differences in our present economic position in the business cycle as compared with the situation prior to the collapse in 1920. The government index shows wholesale prices are today about 30 per cent below the crest

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at that time. This index shows an increase in wholesale prices of 6 per cent in the last nine months contrasted with a rise of 20 per cent. in the nine months prior to the collapse in the 1920 boom. Increases in price are a necessary accompaniment of business recovery. They are the vital stimulant to production. They do not mean inflation unless they continue to rise after full production is attained or unless they are the result of speculation. We have been steadily increasing our production for the last eighteen months. Yet in the two years prior to the 1920 collapse there was comparatively little increase in production. Beyond this again we have had a very stable cost of living for over a year.

We have no need to go into a period of inflation. We are undoubtedly in a plane of prosperity and we wish to hang on to prosperity. I am not one of those who believes that hard times have any special advantage in disciplining our souls. We ought to be able to discipline ourselves in prosperity when we have time to do it, and having achieved prosperity, we ought to be able to hold on to it.

Safeguards of Prosperity

The primary safety to continued prosperity will be continued willingness of our people to save their enlarged earnings, to resist extravagance and waste, to give full individual exertion. Our second safeguard rests upon the individual business man in today's well developed sense of caution and resistance to the will o'wisp of higher prices and over expansion and speculation. Our third line of defense is our credit men and our bankers who can check the dangers of speculative credits. I speak of the credit men because the bankers are not the first to come in contact with the speculative buying. The danger point arises when there is an over ordering of goods and the actual impact of these orders upon the credit machinery of the country does not arise for some time after such a movement has been initiated. Our bankers in daily contact with the commercial fabric of the country are fully alive to their responsibilities.

The fourth line of defense and if possible a complete defense of prosperity, is in a general comprehension and unity of action in broad phases of commercial strategy. There is a steadily growing sense of cooperation in American business—not in restriction of trade—but in the sense of collective thought and action in the broad strategy of employment

production, distribution and credits and of the interdependence of the whole fabric. There is a better understanding of the fundamentals which control the ebb and flow of commerce. The growth of chambers of commerce, of trade associations, of trade unions and other public bodies in their enlarging sense of responsibility, their great development of economic understanding and their enlarged cooperation with governmental agencies in dealing with the larger phases of commerce and credit, is one of the most profound changes in the last decade. It is a few of these broader problems that I particularly wish to discuss.

Our Increased Efficiency in Production

We must get our minds away from the notion that pre-war standards of living and volume of business would be normal now. Normalcy is a vastly higher and more comfortable standard than 1913. We must not judge the state of business activity by pre-war figures, but by a hugely increased base. We must not be frightened when our output of steel or textiles or automobiles, lumber, corn or hogs, or our car loading amount to figures far in excess of those that would be implied alone in a normal growth of population.

There has been in the past decade an unparalleled growth of our industrial and commercial efficiency and our consequent ability to consume. I do not refer to that growth of productivity which should naturally be expected to accompany the increment of 14 millions in our population during the last decade, nor do I refer to the increase in dollar figures due to higher prices. Entirely over and above these contributions to increased figures, we are producing a larger amount of commodities per capita than ever before in our history. Precise comparisons are difficult to adduce. But exhaustive study from many angles of production over average periods, ten years apart, before and since the war, would indicate that while our productivity should have increased about 15 per cent due to the increase in population, yet the actual increase has been from 25 to 30 per cent indicating an increase in efficiency of somewhere from 10 to 15 per cent.

For example, there has been no increase in the number of our farmers during the last decade, yet the agricultural community not only needs an increase of 14 millions of population but has increased its average exports from about $7\frac{1}{2}$ million

tons to $17\frac{1}{2}$ million tons annually. This would show that the individual farmer has increased his efficiency in production by from 15 to 20 per cent in this period. Increase in production and distribution per person engaged in many other industries can be similarly adduced. There are many commodities where we have years since reached a point of saturation per capita and those industries grow approximately with the growth of population or increasing exports. There are other commodities where saturation has not been reached. Increasing efficiency not only releases labor and direction for greater production of these things but enables their wider diffusion over the population. A selection of such industries shows a growth of 60 per cent in the last decade.

We have been able to add to our standards of living by the more general distribution of many articles which were either altogether luxuries ten years ago, or which were luxuries to a large portion of the population. Thus an increased proportion of the population are using electric lights, telephones, automobiles and better housing—and have added movies and what not to their daily routine. A rough estimate would show that we could today supply each person the same amount of commodities that he consumed ten years ago, and lay off about 2,000,000 people from work.

Some people have looked upon these additions of new commodities in services in the daily expenditure of our people as representing extravagances, but as a matter of fact they are no entrenchment upon savings. They are the product of better organized effort.

I wish to impress again that I am not confusing the natural increment that would arise from increased population, or not confusing the increased dollar figures due to higher prices, but that this is an actual increase of commodities and services per capita in the population. It is due to the increased skill, the advancement of science, to temperance, to the improvement of processes, more labor saving devices—but most of all it is due to the tremendous strides made in industrial administration and commercial organization in the elimination of waste in effort and materials.

Nor has it been accomplished in imposing increased physical effort upon our workers. On the contrary actual physical effort to-day is less than ten years ago. There has been in this period a definite decrease in the number of hours' work weekly

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with a definite decrease in physical effort due to improved methods. Nor has it been accomplished by any revolutionary discovery in science. It is the result of steady improvement in management and method all along the line. It is an accumulation of better practice in the elimination of waste. It is a monument to the directing brains of commerce and industry and the development in intelligence and skill of the American workingman. The result has been a lift in the standard of living to the whole of our people, manual worker and brain worker alike. This is the real index of economic progress.

Building and Construction Industries

I have already referred to our building and construction industries. The construction of our buildings, our railways, our plant and equipment generally, naturally tends to expand parallel with the increased demand for consumable goods because people are both more courageous and easier financed in good times. We have not only the normal growth of the country to meet, but the long overdue and accumulated deficit. The delays of war and of post-war slump, and our increasing efficiency in production all demand more buildings and transportation facilities.

In addition there is a considerable expansion of Federal, state, and municipal construction. Tax free securities lie at the base of a good deal of this latter. Under these impulses great pressure is being placed upon our material manufacturers and our labor with a consequent tendency to rising costs. I recently made a recommendation that we defer all but the essential Government works and public buildings as much as possible so as to give full swing to private construction. A representative and able commission of business men and labor which I requested to examine this question goes farther and recommends that we should do all our public works in times of depression and thereby provide greater continuity of employment and contribute to plane out the valleys of depression and level the peaks of booms. This deferment of public construction is more important now than ever for we need the full use of labor and material for long overdue private construction. We wish no cessation in this prime necessity. This recommendation received commendation from hundreds of manufacturers, from labor organizations and contractors and the press. The inevitable criticism came from such a minority as to be negligible. Its reception is evidence

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of the enlightened and constructive thought of our manufacturers who look to the long run of prosperity rather than to the joys of short lived booms. It would be very helpful if such a policy of construction reserve could be well established by states and municipalities as well as the Federal Government.

Gold Accumulations

A development bearing on our credit situation is the large accumulation of gold resulting from our post war trade balances. Our gold reserve has increased by a million dollars since the period of maximum credit expansion of 1920—when it stood at about two billion. At that time we possessed a reserve of about 50 per cent against credits and currency, apparently a safe enough margin of gold. This additional billion has not been treasured upon and our present reserves against credit and currency is about 77 per cent. Without most of it we would still be well above the safety line. Some of this new importation yields no return to us either in earnings or in security. It would serve us much better if we were getting returns for it by its export to foreign countries. If it aided in making foreign currencies convertible into gold it would also contribute to stabilize foreign exchange and improve foreign commerce. In fact for us it contains an element of insecurity. If a castle of credit and currency were created upon the whole of this gold it would mean the greatest era of inflation and speculation in our history. Such action would increase our price levels to a point which would attract foreign goods to us and would curtail our exports. It would thus quickly produce an adverse trade balance and cause this gold to flow abroad with a rush from under our castle of credit and we should have an unparalleled financial crash.

There seems to be heard a sort of chortle in parts of Europe over the commercial strategy in shipping gold to us. It is assumed that we will incorporate this gold into our credit system and be put out of action by the price rises resulting from it. If we retain our normal commercial intelligence this will not happen. I am convinced that the surplus of gold will eventually flow outward in an orderly way through trade without any necessary increase in price levels and its flow need make no disturbance in our business life.

At this point I wish to emphasize the fact that our foreign trade balance sheet does not consist of the movement of com-

modities alone, but we must take into consideration in all our conceptions the tremendous importance of the invisible items embraced in the inward and outward flow of capital and interest, shipping charges, remittances by immigrants, tourist expenditures, and a score of other factors. Whereas in 1922 our exports and import of commodities showed a balance to our credit of about \$700,000,000, yet a study by the Department of Commerce indicates that if we would add to the export and import side of the balance sheet the movement of invisible items we would find that the balance turned one or two hundred millions against us even without the gold imports. No one can prophesy for the future, but the indications for 1923 make it seem probable that the very considerable increase in imports due to our increased buying power, the probable larger volume of immigrant earnings sent abroad from our large employment, and the increased volume of tourist traffic may again leave us an adverse balance. I believe that in time those adverse balances will begin to force gold from us without the impulse of inflation.

There lies in this situation just one thought. We should mentally earmark a considerable part of our recently acquired gold as temporary and our banking system should safeguard against any entrenchment upon it. Moreover we should look upon gold exports with relief, not with alarm.

Foreign Trade

A further change in our whole economy has been fundamental shifts in our foreign trade. There has been a very large increase in the export of agricultural produce the last ten years which must ultimately be readjusted. I have already said that our actual tonnage of agricultural exports has increased from approximately $7\frac{1}{2}$ million pre-war to an average of about $17\frac{1}{2}$ million tons per annum post-war. We must not disguise from ourselves that the ability of Europe to absorb the bulk of this increase has been due in large measure to the failure of Russia and of the eastern belt of Europe to maintain their production and exports. As these territories become more stable they will enter more sharply into competition. While our manufacturers are dependent upon Europe for a market of only 1 per cent of their output, our farmers now depend upon it as a market for 15 per cent of their production and it is therefore these exports that to a considerable degree determine agricultural price levels.

As Europe gains in stability it will both produce and consume more. Parallel with this our own population will increase. What the final balances to our farmers will be in the action and reaction in this matter no one would prophesy. I have felt that this problem warranted a searching inquiry by an able commission assembled by the Department of Commerce to determine the facts and to suggest policies for the adjustment of our agriculture thereto. The situation among our farmers improved greatly during the past year but not all branches of agriculture have yet caught up with other industries. It is a truism that we cannot have permanent prosperity without a prosperous agriculture.

Another great shift which has taken place in our foreign trade and which bears on this question is the increase of our imports from tropical countries. These imports now amount to more than one half of our total imports. We will always be largely dependent on foreign countries for rubber, coffee, tin, and a host of other tropical produce. As we grow in our standards of living and population we will consume an increasing proportion of these products. We must have a consequently increasing volume of imports of this character. In the long run we should expect a decrease of our exports in agricultural produce and therefore we must increase our exports of manufactured goods if we would maintain our ability to buy tropical and other foreign supplies of vital necessity and at the same time cover tourist expenditures and emigrant remittances. Seventy-five per cent of our exports of manufactures go to destinations outside of Europe and I do not share in the melancholy plaint that we ultimately cannot compete with Europe in neutral markets because of the handicap of our higher standard of living and wages.

Further Increase in National Efficiency

We have gone a long way toward overcoming the so-called handicaps of our higher standards through our great increase in efficiency. Our tremendous domestic market gives us the opportunity for mass production by repetitive methods and enables us to secure low unit costs. That we sell 75 per cent of all the automobiles which move in international trade today and do so at real wages three times those of some of our competitors is proof thereof.

If we would expand our manufactures to replace the inevitable comparative decrease in agricultural produce we

shall need to increase still further our industrial and commercial efficiency. We have a large field yet for the elimination of waste, in the still greater improvement and simplification of business methods, in the increase in arbitration of commercial disputes, in the planing out of the business cycle, in the reduction of intermittent operation of industry, in improvements in our internal transportation, in the maintenance of our institutions of economic and scientific research, in the training of technologists, in better commercial strategy and in a score of other directions.

I may cite in passing a type of elimination of waste which bears on exports. In the Department of Commerce we have instituted a division of Simplified Practices working in co-operation with the various industries and your body. The progress of this work has been amazing and I have recently received a statement from one single group estimating that the savings in production cost in that trade already exceed \$25,000,000 per annum. Nor does this effort trench upon questions of individuality or quality.

The determination of sizes and grades in paper, textiles, containers, bricks, furniture and in a hundred other products—all contribute to decrease our costs of production and distribution at home and improve our position in competition abroad.

The maintenance of vigorous foreign trade, statistical and information services is likewise of vital assistance to our exporters. That the reorganization of the Department of Commerce in these directions has met with the approval of our business public is, I feel, fully demonstrated by the increase in requests for assistance of one kind or another from an average of a few hundred daily to over 3,000 daily within a period of eighteen months. I do not assume this tremendous addition to our Departmental work would be called for unless it was of real service.

The Railways.—One of the great wastes in our economic machine is the shortage of transportation. It is the most profound and far reaching deterrent upon our growth. It imposes great costs upon production.

I need not point out to you that the periodic car shortage in its real meaning of insufficient tracks and terminals, as well

as rolling stock, imposes intermittent stoppages of our industries and intermittent strictures in the law of supply and demand, influences price levels and creates local famines and gluts.

It imposes burdens upon us which I believe every year create commercial losses equal to the entire capital cost of bringing the transportation system up to national need. It would be easy to demonstrate that in the additional price of coal due to insufficient transportation during the past year we have paid more than the equivalent of a 50 per cent increase in freight rate on coal. At times last fall there was a differential of 8 to 15 cents per bushel on export grain solely because of inability to secure free movement to seaboard.

The causes of shortage are not far to seek. While the war contributed much delay and demoralization, the continued strangulation of railroad finances alone, before enactment of the present transportation law, could have brought us only one result.

Nor is this a criticism of the railways for they have grown in detailed working efficiency with the rest of the country. In a decade they have increased the movement of goods by 15 per cent with an increase of 3 per cent in personnel. Moreover the managers are showing great faith and courage in the undertaking of a large program of expansion. It is not my purpose to discuss the ultimate solution of the railway problem here. I have participated with the President of your Chamber in appointing a series of committees comprising representation from the railways, the motor industry, the shippers, the waterways, the farmers and labor. These committees, as you know, are devoting themselves to a full consideration of the complex issues involved and their conclusions will, I believe, be one of the utmost value to the government in advancement of solution.

There is a matter of immediate importance in which the commercial public can be of the utmost assistance in transportation and at once. Pending a large amount of betterments the railways are overtaxed to handle the vast volume of commodities we are producing and consuming even to-day. The continuance of our prosperity depends upon their handling the full load. With the continuation of business volume their burden will be even greater next fall than ever before. Therefore, a great service can be given if every local chamber will

definitely organize to cooperate with every local railway official toward this end. Particularly can the whole community assist if it stocks its coal between now and September so as to relieve the fall and winter traffic. This is equally in the interest of the coal consumer for with the present volume of business and the crop outlook he would be farsighted who emulates the wise virgin and fills his lamp now instead of clamoring at the government when there are not enough cars to go around.

The Coal Industry.—There is another direction in which we have great opportunity to improve national economy. That is in the better functioning of our coal industry. If we can reduce the intermittence of operation of the mines and secure their more even seasonal production we shall by eliminating one-third of the capital and labor involved, accomplish three great things of industrial progress—give greater stability to the industry, give better conditions of labor and reduced costs to the consumer—thereby effecting possible savings running into many hundred millions of dollars. While the solution of the problem will be greatly aided by enlarged transportation facilities, the public can help by cooperation in storage.

General.—It is not my intention to discuss with you all our major problems of economic strategy and development. There are great questions of electrification, of waterway improvement, of merchant marine, of the foreign economic situation and our relations to it.

Conclusion

Now all this argument leads me to some general and enlarged conclusions. We have reached a stage of national development of such complexity and interdependence of economic life that we must have a national planning of industry and commerce. We have gained a larger prospective than individual business because individual prosperity is impossible without the prosperity of the whole. This is the function of industry and commerce itself through collective thought. Government has a definite relationship to it, not as an agency for production and distribution of commodities nor as an economic dictator, but as the greatest contributor in the determination of fact and of cooperation with industry and commerce in the solution of its problems. Such strategy in our

country must be consummated by frank discussion by advanced public opinion and understanding with a full realization of common goal.

We have in America an economic and social system based on stimulation of individual initiative. Our ideal is to secure and to maintain an equality of opportunity to all. We have honestly sought over years to find methods by which we could curb those who would dominate the community, and thus stifle the initiative and opportunity of the greater numbers. Nor must we relax vigilance in this particular. But we have also in these times to fight that this initiative shall not be destroyed by those who would divert actual production and distribution into the hands of the Government.

The exact line to be drawn in the curbing of people whose ambition is to interfere with the law of supply and demand to their profit without return of service to the community on the one hand, and the extinction of initiative by the heavy hand of Government on the other is at all times difficult to determine.

Our goal in economic life is to do this great thing, to preserve individual initiative, an equality of opportunity and thus a constantly advancing national standard of living. Our economic and social system is fundamentally right. It has produced the largest advance in the standard of living to the whole of our people that has ever been witnessed in history. Its faults are many but they can, and are being corrected without destroying its progress. It has brought us steady advances despite the fabulous losses of war, and must therefore have great inherent vitality. In short this great conception of America that every man should be given an equality of opportunity to take that position in the community to which he is entitled by virtue of his character and ability, is the keystone of our structure. We must preserve it as the most precious thing we possess, for when all is said and done the finer flowers of civilization do not grow from the cellars of poverty any more than they grow from the palace of extravagance. They grow from the bettering comfort and well being of the whole of great peoples.

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